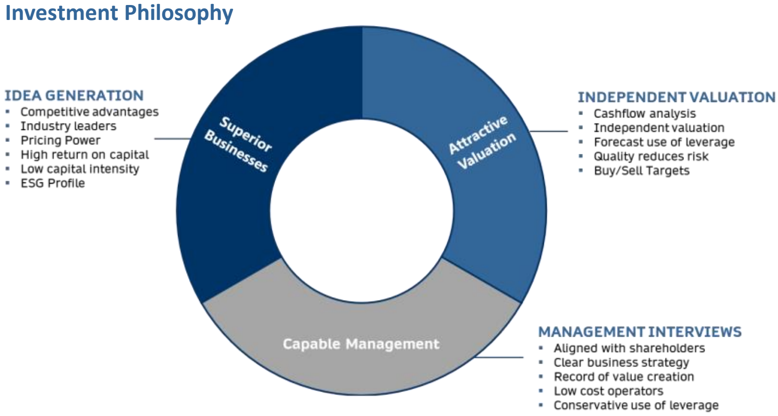
Barrantagh Small Cap Canadian Equity Strategy

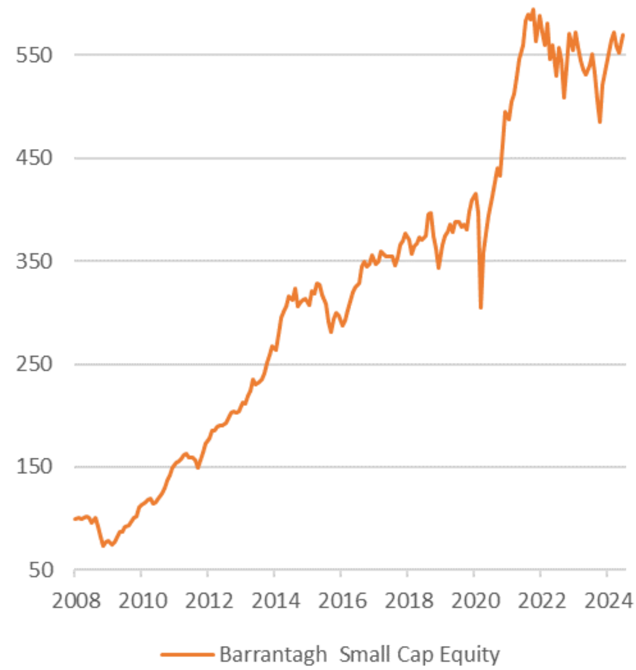
BARRANTAGH Investment Management

Barrantagh Investment Management Inc. is a bottom-up, value driven investment manager with over 25 years history of offering investment services to both high net worth and institutional clients. Our investment philosophy is based on 3 key values that define quality:

Investment Philosophy



Investment Growth (CDN$) *
Time Period: Jan 1 2008 to Jun 30, 2024

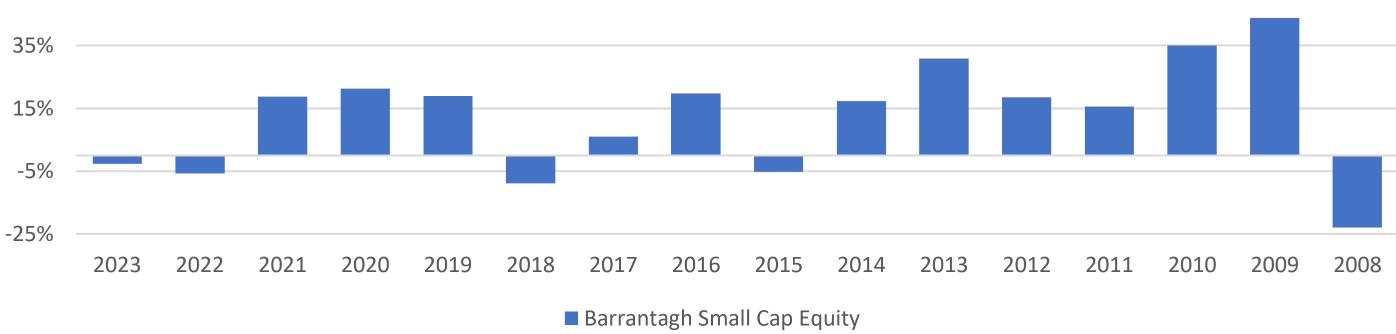


Portfolio Characteristics
Current number of holdings: 29
Current Yield: 2.4%
Average Market Capitalization: $2.2 Billion
Diversification across 10 of 11 Sectors

Trailing Returns *

As of June 30, 2024	YTD	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
Barrantagh Small Cap Equity Portfolio	5.5%	5.4%	3.7%	0.6%	9.7%	8.0%	7.4%	7.0%	7.3%	6.7%	6.1%

Investment Performance Chart *



* Investment returns shown are provided for informational purposes only and are calculated before management fees (gross of fees). Returns are annualized for periods greater than 1 year and calculated on a total return basis which includes income and capital gains (losses). Investment performance is calculated from a composite of identical client accounts. Past performance is no guarantee of future performance and future performance will fluctuate with future market outcomes.

Barrantagh Investment Management|100 Yonge St., Suite 1700, Toronto, ON, M5C 2W1|416.868.6295

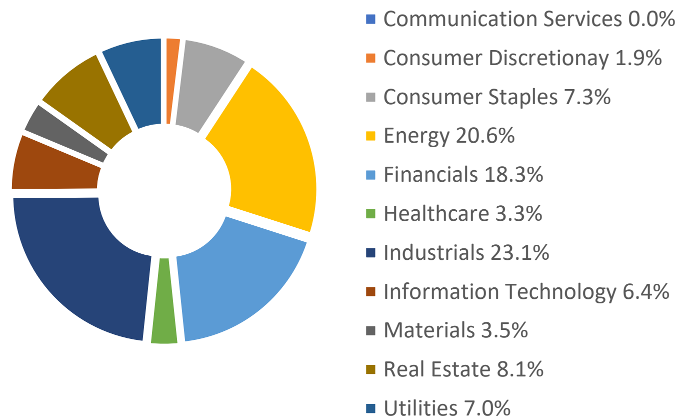
Barrantagh Small Cap Canadian Equity Strategy

BARRANTAGH
Investment Management

Top 10 Holdings
Portfolio Date: June 30, 2024

	Portfolio Weight %
Definity Financial Corp.	5.1
Trisura Group Ltd.	5.1
Boyd Group Services Inc.	5.0
EQB Inc.	4.3
Cargojet Inc.	4.3
Boralex Inc.	4.2
Headwater Exploration Inc.	4.2
Gibson Energy Inc.	3.8
Savaria Corp.	3.8
Softchoice Corp.	3.7

Current Portfolio – Equity Sectors
Portfolio Date: June 30, 2024



Second Quarter Commentary

The second quarter provided choppier performance for equities in increasingly narrow lead markets. Globally, AI-enthusiasm drove larger-cap tech winners to all-time highs with respect to share prices and market concentration. Positive economic data points in the U.S. pushed out interest rate cut expectations and small caps lagged top-heavy large-cap benchmarks. Canadian equities also lagged during the period, outside of commodity names which were an area of strength. On both sides of the border, stock price performance was wildly differentiated depending on where you aligned on the prevailing market narratives.

Taking a step back, this current “peak rate” environment has been largely supportive for Canadian small caps and Portfolio returns. Since markets bottomed last October, the Portfolio is up almost 18%, trailing the benchmark marginally over this eight-month period. This largely overcame a large relative headwind from materials, which contributed 40% of the market returns. During one three-month period (Mar-May) small cap mining stocks (which make up ~28% of the benchmark) were up 40%. The Portfolio currently has zero exposure to mining and our “commodity-light” approach has been a significant headwind to relative performance in the short run. The Portfolio has made sizeable gains elsewhere though (Financials, Industrials, Technology, Staples), offsetting almost all of this drag. In the long run we believe focusing on quality value names with less cyclical exposure provides stronger risk-adjusted returns over the economic cycle.

Another resource area that has seen large gains over the last few years is energy and one such winner in the Portfolio, ARC Resources (ARX), was sold during the period. Given strong execution on the back of the large strategic Seven Generations acquisition, ARX grew to 350,00o barrel per day producer, $14B market cap and realized ~230% return (~40% CAGR). Alongside, the valuation multiple re-rated higher, closing the gap to large cap best-in-class peers. These proceeds were cycled into NuVista Energy (NVA), which also has a sizable position in the condensate-rich fairway of the Montney resource in Western Canada. They are less than one quarter of the size of ARX but growing faster and carry very little debt. NVA trades at a material discount to larger-cap peers (~40%) despite a de-risked 5-year plan targeting annual double digit return profile (production growth plus share buyback) within cash flow on current commodity prices.

Halfway through 2024, we believe there are multiple levers for small caps to outperform. Interest rates are a big one – in a steadying/declining interest rate environment earnings and cash flows rise (lower debt service burden) and valuations lift (time-value of money). Most importantly, sentiment can shift, which we saw late in 2023 and once again in June, as market participants start to look outside the crowding in small pockets that have been driving overall market returns. Market sentiment can be summed up in valuation and, not surprisingly, valuation opportunity differentials between large caps and small caps is stark. Looking at the benchmark, outside of mining/energy, all nine sectors are trading at double-digit discounts to five-year average trading multiples (avg: -17%). This margin of safety offers downside protection and optimism for future mean reversion higher. This compares to the TSX-60 (as a proxy for large caps), where there are just two sectors trading at a large discount (rate-sensitive telcos and REITs), with the remaining eight sectors trading at just a 1% discount to five-year average multiples. Markets move in cycles and the current setup looks quite attractive for smaller cap names going forward.